

Message Text

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21

ACTION AID-59

INFO OCT-01 EA-07 ISO-00 IGA-02 EB-05 SS-07 L-03 /084 W

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P 270330Z SEP 73

FM AMEMBASSY SAIGON

TO SECSTATE WASHDC PRIORITY 7501

C O N F I D E N T I A L SAIGON 17064

AIDAC

E.O. 11652: GDS

PASS AMBASSADOR MARTIN

SUBJECT: PL-480 U.S. USES

REF : AIDTO A-519

1. MISSION INCREASINGLY CONCERNED OVER THE BALANCE OF PAYMENTS OUTLOOK. THE RUNDOWN OF EXCHANGE RESERVES DURING 1973 TO SEPTEMBER EIGHT WAS \$107 MILLION, OR OVER \$13 MILLION PER MONTH. THIS TREND CLEARLY CANNOT BE CONTINUED FOR LONG. CONSIDERING THE UNCERTAIN TIMING AND SIZE OF FY1974 AID APPROPRIATIONS, WE BELIEVE THERE IS A STRONG CASE FOR REDUCTION OF U.S. USES PORTION OF PL-480 TITLE I LOCAL CURRENCY. REDUCTION TO ZERO, ASSUMING TITLE I LEVEL OF \$150 MILLION, WOULD ADD \$2.5 MILLION PER MONTH TO GVN EXCHANGE RECEIPTS. THIS ADDITION WOULD SIGNIFICANTLY DAMPEN RESERVE LOSS OVER NEXT FEW MONTHS, GO PART OF THE WAY TO REASSURE GVN OF CONTINUING U.S. SUPPORT, AND HELP TO PREVENT LOSS OF CONFIDENCE IN PRIVATE SECTOR.

2. THE 20 PERCENT U.S. USES SHARING OF TITLE I PROCEEDS MADE SENSE WHEN GVN EXCHANGE RESOURCES STEMMING FROM U.S. MILITARY PRESENCE WERE SUCH THAT EXCHANGE AVAILABILITY WAS NOT SERIOUS RESTRAINT. TODAY IT HAS BECOME THE OVERRIDING RESTRAINT. AVAILABILITY OF RELATIVELY SMALL MARGINAL INCREMENT OF DOLLARS, IN FORM FREE EXCHANGE, HAS DECISIVE BEARING ON SUCCESS OR FAILURE OF US POLICIES HERE.

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3. PROBLEM NEEDS TO BE VIEWED IN TERMS OF TOTAL RESOURCE
ABAILABILITY RATHER THAN AS TECHNICAL DISEQUILIBRIUM OF BALANCE
OF PAYMENTS. QUESTION IS WHETHER IMPORT RESOURCE IS ADEQUATE
TO SUPPORT THE VARIOUS OBJECTIVES WE AND GVN SEEK, E.E.,
DEVELOPMENT, RECONSTRUCTION, RELIEF, AND SECURITY. DURING THE
LAST TWO YEARS, IMPORTS IN REAL TERMS HAVE GONE DOWN BY SOME
20-25 PERCENT, PRIMARILY AS THE RESULT OF WORLD PRICE
INCREASES. THE CONSEQUENCES IN TERMS OF REDUCED REAL INCOME
FOR GOVERNMENT EMPLOYEES AND OTHER VULNERABLE GROUPS, AND IN
TERMS OF PRESSURE ON RESOURCES AVAILABLE FOR RECONSTRUCTION
AND DEVELOPMENT, ARE ALREADY SERIOUS. THE BALANCE OF
PAYMENTS CAN BE FORCED INTO EQUILIBRIUM BY A COMBINATION OF
EXCHANGE DEPRECIATION, TAXES, MONETARY RESTRAINT, AND
EXPORT INCENTIVES, BUT IN THE SHORT RUN, THAT PROCESS ONLY
MEANS STILL LESS RESOURCES FOR THE ECONOMY. THEREFORE,
ALTHOUGH DEVALUATION AND OTHER MEASURES ARE NECESSARY, THEY
DO NOT HELP TO RESOLVE THE FUNDAMENTAL SHORT-TERM PROBLEM.
ONLY AN INCREMENT TO REAL RESOURCES CAN DO THAT.
ACCORDINGLY, THE MISSION URGES THAT WASHINGTON AGENCIES
REDUCE THE PL-480 TITLE I U.S. USES PORTION TO ZERO FOR
THE NEW PL-480 AGREEMENT AND FOR SHIPMENTS NOT YET ARRIVED
ON PAST AGREEMENTS.
APPLING

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Message Attributes

Automatic Decaptioning: X
Capture Date: 01 JAN 1994
Channel Indicators: n/a
Current Classification: UNCLASSIFIED
Concepts: n/a
Control Number: n/a
Copy: SINGLE
Draft Date: 27 SEP 1973
Decaption Date: 01 JAN 1960
Decaption Note:
Disposition Action: RELEASED
Disposition Approved on Date:
Disposition Authority: golinofr
Disposition Case Number: n/a
Disposition Comment: 25 YEAR REVIEW
Disposition Date: 28 MAY 2004
Disposition Event:
Disposition History: n/a
Disposition Reason:
Disposition Remarks:
Document Number: 1973SAIGON17064
Document Source: CORE
Document Unique ID: 00
Drafter: n/a
Enclosure: n/a
Executive Order: GS APPLING
Errors: N/A
Film Number: n/a
From: SAIGON
Handling Restrictions: n/a
Image Path:
ISecure: 1
Legacy Key: link1973/newtext/t1973096/aaaaaebn.tel
Line Count: 84
Locator: TEXT ON-LINE
Office: ACTION AID
Original Classification: CONFIDENTIAL
Original Handling Restrictions: n/a
Original Previous Classification: n/a
Original Previous Handling Restrictions: n/a
Page Count: 2
Previous Channel Indicators:
Previous Classification: CONFIDENTIAL
Previous Handling Restrictions: n/a
Reference: AIDTO A-519
Review Action: RELEASED, APPROVED
Review Authority: golinofr
Review Comment: n/a
Review Content Flags:
Review Date: 06 DEC 2001
Review Event:
Review Exemptions: n/a
Review History: RELEASED <06-Dec-2001 by shawdg>; APPROVED <28-Dec-2001 by golinofr>
Review Markings:

Declassified/Released
US Department of State
EO Systematic Review
30 JUN 2005

Review Media Identifier:
Review Referrals: n/a
Review Release Date: n/a
Review Release Event: n/a
Review Transfer Date:
Review Withdrawn Fields: n/a
Secure: OPEN
Status: NATIVE
Subject: PL-480 U.S. USES
TAGS: EAID, EAGR, VS, US
To: STATE
Type: TE
Markings: Declassified/Released US Department of State EO Systematic Review 30 JUN 2005